

PERAC AUDIT REPORT



Amesbury Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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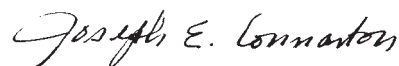
December 5, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Amesbury Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff and to the System's independent auditor Melanson Heath and Co. for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Board Member Attendance

A review of Board member attendance indicated that a member missed 42% of Board meetings in 2004, 33% in 2005, and 37% of meetings from January through August 2006.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent (25%) or more is considered excessive. It is the Board's responsibility to counsel members to make every effort to uphold their duties to the System and to take appropriate action to ensure participation of all members. The Board may consider changing the times of Board meetings in order to accommodate the member's schedule.

Board Response:

The Amesbury Retirement System is reviewing the attendance records and counseling members on their need for active participation. The Board believes this to be a temporary concern.

2. Membership and the Additional 2% Contribution

Audit staff sampled members' deduction rates to confirm the correct percentage contribution was being withheld and that the additional 2% deduction is withheld from those members hired after January 1, 1979 whose regular compensation is over \$30,000. The following was observed:

- 38% of members in the database were assigned deduction rates that did not include the 2% additional deduction.
- Differences were identified in the composition of regular compensation calculated at the assigned rates and the composition of regular compensation calculated for the additional 2% deduction.
- Several members were assigned multiple job codes for a particular payroll period. Compensation was not accumulated for the purpose of determining whether total pay for the period qualified for the additional 2% contribution.

The compensating control mechanisms designed to identify exceptions similar to these failed to notify the payroll and retirement administrators. Part-time employees can become full-time, payroll limits can be exceeded, and new payroll codes can be created that result in inconsistencies in the application of retirement contribution policy. All these events likely contributed to these exceptions.

Recommendation: The System must comply with G.L. c. 32, § 22 (1) (b) and PERAC Memo #43/1999, which discusses the additional 2% deductions.

- The payroll system should be programmed to identify limitations and excess deductions. The correct deduction rates should be assigned to all members both in the payroll system as well as the membership database.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

- The payroll system must properly quantify regular compensation for multiple job codes within the same payroll period. The retirement system must identify discrepancies in a timely manner. New edit and exception criteria must be developed and redesigned into a new report.
- The Administrator should assess the amount of contributions that have not been collected based on the issues identified. The Board should then consider the appropriate remedy to collect the funds due the system.

Board Response:

All of the members have been corrected and new procedures are in place so that future discrepancies will not occur.

3. Annuity Savings Fund

An examination of Annuity Saving Fund (ASF) balances for 2002 through 2005, as listed on Annual Statements for 2003, 2004 and 2005, revealed differences relative to their respective balances on the Supplementary Membership Schedule. These ranged from \$706.45 in 2002 to \$3,512.86 as of December 31, 2005. The differences resulted, for the most part, from an incorrect prior-period adjustment and omission of an entry for funds transferred from the Pension Fund.

Recommendation: The year-end balance carried on the general ledger and reported in the Annual Statement must equal the balance for the same date on the Supplementary Membership Schedule. An examination should be made each year before closing to research and rectify any discrepancies. An adjusting journal entry should be made in 2006 to correct the Annuity Savings Fund balance on the general ledger (debit #3297 Pension Reserve Fund \$3,439.66 and debit #3296 Pension Fund \$73.20; credit #3293 Annuity Savings Fund \$3,512.86).

Board Response

Adjustments have been made to correct the error, and Supplementary Membership Schedules are being tied out to the General Ledger prior to closing.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2005	2004	2003
Assets:			
Cash	\$988,256	\$1,205,241	\$1,280,039
Pooled Domestic Equity Funds	16,338,450	15,576,808	14,201,184
Pooled International Equity Funds	3,679,216	3,116,991	2,573,689
Pooled Domestic Fixed Income Funds	7,533,188	7,355,187	8,109,410
Pooled Alternative Investment Funds	17,435	0	0
Pooled Real Estate Funds	3,358,281	2,803,390	1,506,224
Interest Due and Accrued	0	0	0
Accounts Receivable	4,590	73,836	80,575
Accounts Payable	(26,489)	(3,307)	(15,861)
Total	<u>\$31,892,926</u>	<u>\$30,128,147</u>	<u>\$27,735,259</u>
Fund Balances:			
Annuity Savings Fund	\$9,856,089	\$9,046,981	\$8,086,952
Annuity Reserve Fund	3,500,879	3,585,228	3,783,719
Pension Fund	587,513	1,342,627	2,182,745
Military Service Fund	2,550	474	0
Expense Fund	0	0	0
Pension Reserve Fund	17,945,895	16,152,838	13,681,842
Total	<u>\$31,892,926</u>	<u>\$30,128,147</u>	<u>\$27,735,259</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$8,112,053	\$3,037,755	\$2,626,689	\$0	\$0	\$9,644,276	\$23,420,773
Receipts	1,144,943	88,738	1,950,013	0	153,967	4,033,510	7,371,171
Inter Fund Transfers	(1,015,230)	1,011,174	0	0	0	4,056	0
	(154,814)	(353,948)	(2,393,956)	0	(153,967)	0	(3,056,685)
Disbursements							
Ending Balance (2003)	8,086,952	3,783,719	2,182,745	0	0	13,681,842	27,735,259
Receipts	1,290,044	109,468	2,055,157	474	166,065	2,480,021	6,101,230
Inter Fund Transfers	(105,177)	114,203	0	0	0	(9,026)	0
	(224,839)	(422,163)	(2,895,276)	0	(166,065)	0	(3,708,342)
Disbursements							
Ending Balance (2004)	9,046,981	3,585,228	1,342,627	474	0	16,152,838	30,128,147
Receipts	1,215,195	105,081	2,199,136	2,076	194,887	1,793,057	5,509,433
Inter Fund Transfers	(244,974)	244,974	0	0	0	0	0
	(161,112)	(434,404)	(2,954,250)	0	(194,887)	0	(3,744,653)
Disbursements							
Ending Balance (2005)	<u>\$9,856,089</u>	<u>\$3,500,879</u>	<u>\$587,513</u>	<u>\$2,550</u>	<u>\$0</u>	<u>\$17,945,895</u>	<u>\$31,892,926</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$1,013,026	\$947,877	\$922,138
Transfers from Other Systems	119,095	277,337	102,435
Member Make Up Payments and Re-deposits	29,431	16,783	49,582
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>53,643</u>	<u>48,046</u>	<u>70,788</u>
Sub Total	<u>1,215,195</u>	<u>1,290,044</u>	<u>1,144,943</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>105,081</u>	<u>109,468</u>	<u>88,738</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	63,831	37,969	36,881
Received from Commonwealth for COLA and Survivor Benefits	118,963	131,535	99,847
Pension Fund Appropriation	<u>2,016,342</u>	<u>1,885,653</u>	<u>1,813,285</u>
Sub Total	<u>2,199,136</u>	<u>2,055,157</u>	<u>1,950,013</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	2,076	474	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,076</u>	<u>474</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>194,887</u>	<u>166,065</u>	<u>153,967</u>
Sub Total	<u>194,887</u>	<u>166,065</u>	<u>153,967</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	27,916	9,120	17,063
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	3,839	2,469	3,776
Miscellaneous Income	7,650	0	0
Excess Investment Income	<u>1,753,652</u>	<u>2,468,433</u>	<u>4,012,671</u>
Sub Total	<u>1,793,057</u>	<u>2,480,021</u>	<u>4,033,510</u>
Total Receipts	<u>\$5,509,433</u>	<u>\$6,101,230</u>	<u>\$7,371,171</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$127,057	\$122,333	\$93,990
Transfers to Other Systems	<u>34,056</u>	<u>102,506</u>	<u>60,824</u>
Sub Total	<u>161,112</u>	<u>224,839</u>	<u>154,814</u>
Annuity Reserve Fund:			
Annuities Paid	434,404	422,163	353,948
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>434,404</u>	<u>422,163</u>	<u>353,948</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	2,083,054	2,077,869	1,648,402
Survivorship Payments	30,028	32,817	31,007
Ordinary Disability Payments	20,210	17,100	16,691
Accidental Disability Payments	273,062	258,347	258,683
Accidental Death Payments	11,589	16,503	34,710
Section 101 Benefits	0	0	871
3 (8) (c) Reimbursements to Other Systems	129,549	120,434	64,894
State Reimbursable COLA's Paid	<u>406,757</u>	<u>372,206</u>	<u>338,698</u>
Sub Total	<u>2,954,250</u>	<u>2,895,276</u>	<u>2,393,956</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	53,444	48,858	43,968
Legal Expenses	3,414	2,718	1,819
Travel Expenses	1,867	2,141	1,797
Administrative Expenses	11,370	19,426	11,064
Furniture and Equipment	264	2,214	0
Management Fees	88,113	58,040	55,210
Consultant Fees	13,500	10,000	17,000
Service Contracts	5,549	5,336	4,680
Fiduciary Insurance	2,366	2,333	3,428
Sub Total	<u>194,887</u>	<u>166,065</u>	<u>153,967</u>
Total Disbursements	<u>\$3,744,653</u>	<u>\$3,708,342</u>	<u>\$3,056,685</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$16,763	\$9,997	\$10,472
Pooled or Mutual Funds	226,203	132,282	167,164
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
Total Investment Income	<u>242,966</u>	<u>142,279</u>	<u>177,636</u>
Plus:			
Realized Gains	172,593	143,180	57,312
Unrealized Gains	4,084,673	4,029,959	5,441,906
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,257,266</u>	<u>4,173,139</u>	<u>5,499,218</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(20,238)	(418)	(103,103)
Unrealized Loss	(2,372,730)	(1,522,987)	(1,247,588)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(2,392,968)</u>	<u>(1,523,405)</u>	<u>(1,350,691)</u>
Net Investment Income	<u>2,107,264</u>	<u>2,792,012</u>	<u>4,326,164</u>
Income Required:			
Annuity Savings Fund	53,643	48,046	70,788
Annuity Reserve Fund	105,081	109,468	88,738
Military Service Fund	0	0	0
Expense Fund	<u>194,887</u>	<u>166,065</u>	<u>153,967</u>
Total Income Required	<u>353,612</u>	<u>323,580</u>	<u>313,493</u>
Net Investment Income	<u>2,107,264</u>	<u>2,792,012</u>	<u>4,326,164</u>
Less: Total Income Required	<u>353,612</u>	<u>323,580</u>	<u>313,493</u>
Excess Income To The Pension Reserve Fund	<u>\$1,753,652</u>	<u>\$2,468,433</u>	<u>\$4,012,671</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$988,256	3.1%	100%
Pooled Domestic Equity Funds	16,338,450	51.2%	
Pooled International Equity Funds	3,679,216	11.5%	
Pooled Domestic Fixed Income Funds	7,533,188	23.6%	
Pooled Alternative Investment Funds	17,435	0.1%	5%
Pooled Real Estate Funds	3,358,281	10.5%	5%
Grand Total	<u>\$31,914,826</u>	<u>100.0%</u>	*at time of purchase

For the year ending December 31, 2005, the rate of return for the investments of the Amesbury Retirement System was 7.18%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Amesbury Retirement System averaged 4.13%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Amesbury Retirement System was 9.10%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Amesbury Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

7/6/2000

We have recently received your Board's response to PERAC Memo #44/1999 regarding Supplemental Investment Regulations. In accordance with your decision, self-imposed restrictions on your Board's percentage of holdings in specific asset classes have been rescinded. Your Board must, however, make asset allocation decisions subject to your fiduciary duty.

Please note that the restrictions pertaining to real estate and alternative investments contained in 840 CMR 19.01 remain in effect.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Amesbury Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Amesbury Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

3/27/2003

Creditable service policy on buybacks is amended as follows: Any member (excludes prior Hospital member time) requesting to buy back prior service time from time worked in Amesbury will be credited for one full year of service for every 1040 hours worked (or 780 hours for School personnel working a 39 week year) upon payment in full.

11/21/2002

Effective 1/1/03, all full time employees (except elected officials) working 20 hours or more each week must join the Amesbury Retirement System, except Call Firefighters or Reserve Police Officers. Call Firefighters and Reserve Police Officers are not eligible for membership.

9/27/2000

Approved the Police Department's policy of allowing officers who receive money for accrued vacation time in the year of their retirement to have it counted toward their final year's regular salary (ex. this could mean that 54 weeks of pay are included in one year).

8/29/2000

Creditable Service Policy:

- Hospital: Creditable service for anyone wishing to buy back time from hospital employment will be based on a 40 hour work week, or 2080 hours/year.
- Call Firefighters: Hired prior to 1964 is entitled to all Call FF time. Post 1964: Maximum of 5 years if they become a permanent firefighter. C32, s 4(2) (b)
- Reserve Police: Maximum of 5 years.
- All other creditable service: 1 full year of creditable service time for every year worked, even if part-time or seasonal (i.e. School, Board of Registrars, etc.), provided that there are records showing that the position was a year round position, even if the member only worked sporadically during the year (i.e. Board of Registrar appointments). Intermittent or temporary positions (such as Summer Town Park personnel, lifeguards, etc.) will be credited on a pro rata basis.
- An inactive member, who returns to work, or a member who decreases their hours to less than 20 hours/week, must still have retirement deductions taken out, and be granted creditable service time.

1/27/1998

Stipends paid to EMT's for Advance Life Support certification is regular compensation. (See 7/25/95.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

6/24/1997

The following policy will be adhered to for replacement or lost retirement checks:

If a retiree does not receive his/her retirement check within three days of the due date, the Retirement or Treasurer's office must be contacted and a lost check form must be signed. Replacement checks will be issued one week after the three day due date.

1/30/1996

The Board established a Public Record Request policy:

Public records, and records exempt from release, will be defined in accordance with PERA's guidelines taken from Chapter 4, Section 7, cl. 26 (examples of public records are retirement allowances paid; active member's accounts; addresses and birth dates).

All public records requests must be submitted in writing to the Board. It is this Board's policy to answer all requests in writing with a copy to the respective retiree or member. Or if a denial is deemed necessary, this too shall be in writing. Requests shall be answered within 10 days. A court order is necessary to freeze or attach any member's or retiree's account.

7/25/1995

Inclusion of any regularly scheduled payment by contract, personnel bylaw or employment agreement to be considered "regular compensation."

11/30/1993

Full time creditable service will be given to any member working greater than 20 hours per week.

5/25/1993

Any refunds issued to a former hospital employee on or after this date, would be deemed as an involuntary layoff and the member would be given a full refund of interest.

3/30/1993

Part-time employees' retirement calculations will be done using their 3-year earnings based on a full-time scale. (revised 11/30/93)

12/22/1987

The 5/8/73 ruling that E.E.A. employees are not eligible to join the Amesbury Retirement System is voided. Employees paid through grants who were previously ineligible to join the system and now are eligible, are also granted permission to make- up creditable service.

10/27/1986

That any member who has reduced their hours to less than 20 hours cannot withdraw their money unless they terminate employment with the Town.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

4/26/1977

That as of this date, April 26, 1977, no town employee shall be eligible to join the Amesbury Municipal Retirement System unless said employee is employed for a minimum of twenty (20) hours per week, with the exception of call firefighters and provisional police.

5/8/1973

That all Cross Guards employed by the Police Department in the town of Amesbury, who work on a basis of 10 hours per week, be allowed to join the Retirement System and be given creditable service for only 10 hours per week. (revised 4/26/77)

That longevity pay for all members of the Amesbury Municipal Retirement System who are eligible for same, and incentive pay for members in Group #4, be considered as part of their salary for retirement purposes.

12/5/1950

That the vote of the board on 4/21/42 granting call firemen one year of creditable service for every five years of call service be rescinded, and that the board grant to call firemen one year of creditable service for every four years of call service, and that all prior service certificates previously granted be recalled and changed to conform with this new vote. (Refer to Chapter 32, Section 4 (2) (b)...any call firefighter who becomes permanent shall be credited up to a maximum of 5 years for their call firefighter time.)

That all employees of the police department who have been certified by civil service as eligible for permanent appointments shall become members of the system when employed by the town, even though such employment shall be on a part time or temporary basis, but shall receive only such credit for membership service as part time employees under the rule of the board that 250 days is equivalent to a full year.

5/6/2003

Travel Regulation

The Board has adopted a Supplementary Travel Regulation under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Michael Basque

Appointed Member:	Michael Cronin	Term Expires:	Until successor is named
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Elected Member:	Cornelia Freeman, Chair	Term Expires:	1/29/08
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Elected Member:	Barbara Moore	Term Expires:	1/29/08
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Appointed Member:	Charles Benevento	Term Expires:	1/7/06
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 fiduciary and
Elected Member:)	\$1,000,000 fidelity policy
Appointed Member:)	through MACRS (St. Paul Travelers
)	and Surety Co. of America; National
)	Union Fire Insurance Co. of
Staff Employee:)	Pittsburgh, PA; Arch Insurance Co.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2006.

The actuarial liability for active members was	\$25,668,858
The actuarial liability for non-vested terminated members was	683,648
The actuarial liability for retired members was	<u>30,281,901</u>
The total actuarial liability was	56,634,407
System assets as of that date were	<u>31,892,926</u>
The unfunded actuarial liability was	<u>\$24,741,481</u>
 The ratio of system's assets to total actuarial liability was	 56.3%
As of that date the total covered employee payroll was	\$11,652,440

The normal cost for employees on that date was 8.2% of payroll

The normal cost for the employer was 4.4% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
 Rate of Salary Increase: 3.5% per annum 2006 and 2007, varies thereafter

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1,

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$31,892,926	\$56,634,407	\$24,741,481	56.3%	\$11,652,440	212.3%
1/1/2004	\$27,735,259	\$47,405,492	\$19,670,233	58.5%	\$10,572,920	186.0%
1/1/2002	\$25,271,096	\$40,814,053	\$15,542,957	61.9%	\$10,380,709	149.7%
1/1/1999	\$22,632,257	\$31,623,381	\$8,991,124	71.6%	\$9,084,628	99.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	13	3	9	5	8	9	17	21	4	5
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	1	0	1	1	0	0	0	0	1
Total Retirements	14	4	9	6	9	9	17	21	4	6
Total Retirees, Beneficiaries and Survivors	191	195	194	195	199	210	215	232	230	236
Total Active Members	335	348	354	359	356	350	341	317	315	321
Pension Payments										
Superannuation	\$919,662	\$991,718	\$1,001,846	\$1,080,431	\$1,107,679	\$1,242,902	\$1,319,702	\$1,648,402	\$2,077,869	\$2,083,054
Survivor/Beneficiary Payments	36,374	36,387	35,101	32,796	31,030	26,606	34,853	31,007	32,817	30,028
Ordinary Disability	20,210	20,210	19,806	19,530	18,548	20,214	18,548	16,691	17,100	20,210
Accidental Disability	147,235	211,889	210,332	222,775	252,677	275,604	258,691	258,683	258,347	273,062
Other	<u>226,938</u>	<u>231,291</u>	<u>237,457</u>	<u>254,286</u>	<u>326,280</u>	<u>352,482</u>	<u>393,218</u>	<u>439,173</u>	<u>509,143</u>	<u>547,895</u>
Total Payments for Year	<u>\$1,350,419</u>	<u>\$1,491,495</u>	<u>\$1,504,542</u>	<u>\$1,609,818</u>	<u>\$1,736,214</u>	<u>\$1,917,808</u>	<u>\$2,025,013</u>	<u>\$2,393,956</u>	<u>\$2,895,276</u>	<u>\$2,954,250</u>

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